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DOD Releases Burdensharing Report

The Department of Defense has released its annual report on allied support of common defense efforts, concluding again that Japanese contributions to general security are significant, but far behind Western nations. In language similar to previous reports, DOD suggested that Japan is doing less than its fair share in self-defense and regional security in the Pacific.

The burdensharing report, mandated by Congress, assesses the individual and collective security efforts of the North Atlantic Treaty Organization (NATO) and Japan. This year's survey concluded that more nations met NATO's goal of a 3 percent annual defense spending increase in 1984 than in the previous year. Only four countries achieved that standard in 1983; twice as many reached the same plateau one year later.

Despite what DOD views as insufficient spending by several nations, Defense Secretary Caspar Weinberger urged Congress not to resort to pressure to

Meanwhile, Japanese fishermen who ply American waters are watching a U.S. court case in which U.S. environmentalists are suing the U.S. government to force it to impose fishing sanctions against Japan for that country's defiance of an International Whaling Commission (IWC) moratorium on commercial whaling (see JEI Report No. 45B, November 30, 1984). After losing the initial hearing (see JEI Report No. 10B, March 15, 1985), the Justice Department won an expedited appeals hearing. The May 16 hearing gave judges the chance to question the legal foundations of each side's case. According to observers, the judges asked few questions, suggesting that the legal issues are clear. They did, however, quiz Justice Department lawyers on the impact of different decisions. This has led some to believe that the court has already made up its mind in favor of the U.S. government and is seeking the best wording for its decision. Observers are quick to point out that the case is not over until a decision is handed down, possibly as early as mid-June.

As the United States was arguing that Japanese fishing boats ought to be allowed to fish American waters, it was cutting Japan's fishing quota. The amount of ground fish Japanese fishermen will be allowed to take in the Gulf of Alaska in 1985 was cut drastically to 2,597 metric tons, 90 percent below last year's total. Officials have not provided a clear reason for the cut, leading Japanese authorities to speculate that the Americans are unhappy about negotiations to purchase U.S. fish products. Others point out that the overall foreign fishing quota is down sharply from last year. In any case, the announcement will have only a small impact on Japan's total quota in U.S. waters, which stands at 529,000 metric tons for the January to April period.

More than ever before, the fortunes of Japanese fishermen are determined by political considerations. Nonetheless, Japan will continue to rely on the sea for a major portion of its nutritional needs.

Jon Choy

Beijing Concerned Over Booming Trade With Tokyo

In a surprising turn of events, Japanese traders and Chinese officials are expressing some concern over the boom in bilateral trade. The object of concern is China's skyrocketing bilateral trade deficit. The red ink just four months into 1985 already surpasses the deficit for all of 1984. Combined with the rapidly increasing number of import contracts and joint ventures, the trend has cast doubt on China's ability to pay its bills. Although Chinese officials insist that the country's reserves of foreign currency are more than adequate, they too are concerned over the widening imbalance.

In 1984, China bought $1.3 billion more than it sold to Japan as total trade reached a new record of $13.2 billion (see JEI Report No. 12B, March 29, 1985). By the end of April 1985, however, Peking had already accumulated a trade deficit of over $1.5 billion on less than half of 1984's total volume ($5.8 billion). The shortfalls in January ($182 million) and February ($302 million) were in line with monthly figures for the last half of 1984, but the differences in March ($605 million) and April ($452 million) were substantially higher.

The trend toward a widening trade imbalance became marked in July 1984, when Japan's exports rose to $561 million from $500 million the month before; by December, shipments had hit almost $1.1 billion. Since January of this year, when exports to China totaled $710 million, monthly totals have gone as high as $1.1 million (April). China's exports to Japan, on the other hand, have fluctuated in a narrow band between $475 million and $535 million, except for August 1984, when they totaled $586 million and April 1985, when they hit $634 million.

Most of the export increase is due to expanded shipments by Japanese electronics manufacturers. Sales to China for all major consumer electronics goods at least doubled in fiscal 1984 from the previous year (see accompanying table). Automotive manufacturers also racked up significant gains. An upsurge in joint ventures has also put a strain on foreign currency holdings, as China bought plant equipment and technology from the West.

Japanese Companies' Exports to China*

(in billions of yen)

	FY 1983 (Actual)	FY 1984 (Estimated)	FY 1985 (Projected)
Electric Machinery			
Hitachi, Ltd.	Y38.0	Y99.0	Y160.0
Toshiba Corp.	20.0	100.0	150.0
Mitsubishi Electric Corp.	0.0	7.0	16.0
Matsushita Electric Industrial Co., Ltd.	10.0	35.0	80.0
Sharp Corp.	10.8	47.0	90.0
Sony Corp.	10.0	25.0	100.0
Sanyo Electric Co., Ltd.	13.6	25.2	100.0
Victor Co. of Japan, Ltd.	0.0	10.0	30.0
Nonelectric Machinery			
Niigata Engineering Co., Ltd.	1.7	2.7	3.6
Toshiba Machine Co., ltd.	1.3	1.5	2.0
Tsukodama K.K.	0.3	1.8	6.2
Iwata Air Compressor Mfg. Co., Ltd.	0.0	0.4	0.6
Transportation Equipment			
Toyota Motor Corp.	5.0	50.0	150.0
Nissan Motor Co., Ltd.	2.5	60.0	100.0
Honda Motor Co., Ltd.	2.0	12.0	28.0
Isuzu Motors, Ltd.	2.9	9.0	80.0
Fuji Heavy Industries, Ltd.	0.3	1.4	9.3
Hino Motor Co., Ltd.	2.3	20.8	42.4
Nissan Diesel Motor Co., Ltd.	5.8	8.7	13.5
Daihatsu Motor Co., Ltd.	0.0	3.8	5.5
Mazda Motor Corp.	0.1	5.0	7.0
Suzuki Motor Co., Ltd.	1.0	15.0	20.0
Yamaha Motor Co., Ltd.	0.0	10.0	20.0

	FY 1983 (Actual)	FY 1984 (Estimated)	FY 1985 (Projected)
Chemicals			
Kanegafuchi Chemical Industry Co., Ltd.	2.5	4.1	3.5
Daicel Chemical Industries, Ltd.	1.8	2.3	2.7
Sumitomo Chemical Co., Ltd.	12.0	12.0	12.0
Mitsubishi Cehmical Industries Co., Ltd.	4.9	4.7	5.0
Showa Denko K.K.	3.0	9.4	10.0
Steel			
Nippon Steel Corp.	180.0	210.0	230.0
Kawasaki Steel Corp.	76.0	86.0	93.0
Nippon Kokan K.K.	70.0	85.0	92.0
Sumitomo Metal Industries, Ltd.	85.0	110.0	120.0
Kobe Steel, Ltd.	35.0	40.0	44.0
Precision Machinery			
Canon Inc.	1.0	5.0	20.0
Ricoh Co., Ltd.	1.0	5.0	10.0
Sankyo Seiki Mfg. Co., Ltd.	1.0	2.1	2.7
Tokyo Keiki Co., Ltd..	1.1	1.4	1.6
Dainippon Screen Mfg. Co., Ltd.	1.9	3.8	5.0
Construction			
Taisei Corp.	0.0	20.0	30.0
Kajima Corp.	0.0	0.0	25.0
Mitsui Construction Co., Ltd.	0.0	8.0	13.0
Kumagai Gumi Co., Ltd.	0.0	0.0	20.0

*Based on orders received each year for construction companies and some estimates.

Source: Nihon Keizai Shimbun

The rapid growth of the trade gap has made Japanese trading company executives nervous and forced Chinese central planners to curb foreign currency expenditures. China's foreign currency reserves have shrunk by at least $2.3 billion since January, putting them at a $12 to $14 billion level, according to Beijing. But trading company analysts feel that reserves could be as low as $10 to $12 billion, and that new, long-term obligations are increasing very rapidly.

Both sides are responding to the worrisome trend. The Chinese are stretching out time schedules, delaying new projects, and asking foreign joint-venture partners to put up the scarce hard currency. An additional 15 percent tax on profits and new controls on foreign exchange transactions have been implemented, angering China's business partners. Because improved living standards are a highly visible result of the controversial economic reforms Beijing is promoting, imports of televisions, radios and other luxury goods will not be cut off, but officials have begun to monitor imports and crack down on Chinese traders who illegally divert hard currency to pay for consumer goods.

Japanese trading companies have managed to encourage several Japanese banks to increase the lines of credit extended to Chinese companies. Total credit available, which amounted to approximately $1.8 billion in March 1984, has grown to over $2.5 billion. Generally, the funds are being spent on construction projects, including hotels and trade centers. China's debt was an estimated $4 billion at the end of 1984, mostly from international financial institutions including the World Bank.

At a meeting of the Asian Development Bank (ADB) in April, both Japan and China demonstrated a new willingness to cooperate. Peking has been seeking a seat in the ADB, but the issue of Taiwan's membership has blocked progress. At the Bangkok meeting, however, China softened its stance, and Japan called for China's admission. The ADB is a major source of "soft" loans for developing countries in the region, and China would certainly like to get a piece of the action.

Chinese officials will face severe difficulties in restraining the demand for foreign currency if ambitious modernization goals are to be achieved. The nation's oil companies plan to buy 150 rebuilt oil rigs this year, and as many as 1,000 during the next few years. Complementing this equipment-buying spree, officials are negotiating with foreign oil companies to explore the vast interior regions of the country. U.S. firms are also competing to refurbish the multitude of small industrial plants throughout China, which could mean significant sales. All this adds up to quite a tidy sum. Despite the concerns over China's ability to pay its debts, however, the outlook remains bright. As the possibility of selling a product to every person in China becomes more realistic, foreign companies will devote more resources to the market. Japan is in a prime position to take advantage of this trend.

Jon Choy

Tanaka Condition Muddies Political Scene

Japan is buzzing again over the health of former prime minister Kakuei Tanaka, who has been hospitalized since February after suffering a severe stroke that has left his supporters and political dependents in a state of uncertainty. Recent developments suggest conflicting possibilities as Japan ponders the strength of the Liberal Democratic Party's "kingmaker."

News dailies flashed frontpage headlines recently that Mr. Tanaka had been temporarily released from the hospital. Details were slim, but it appears that the former premier was allowed to go home for a few days before returning for continued treatment and rehabilitation. Public concern over his condition was demonstrated in reports that Mr. Tanaka said a few words during an intimate gathering on the occasion of his 68th birthday.

Leaks over Mr. Tanaka's short return home -- if it indeed took place -- apparently were designed to remind supporters and opponents alike that the head of the LDP's largest faction is sensitive to his diminished authority and to potential challenges to his leadership. The two or three months that were initially forecast for a full recovery have long since passed, fueling